

**Subject:** [Fwd: Comments on questions asked-please read]  
**From:** Climate Change General <acct181@arb.ca.gov>  
**Date:** Tue, 18 Mar 2008 12:42:58 -0700  
**Attachments:** Comments on questions asked-please read  
**To:** mzaragoz@arb.ca.gov

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**Subject:** Comments on questions asked-please read  
**From:** Meredith Wingate <mwingate@resource-solutions.org>  
**Date:** Mon, 17 Mar 2008 15:34:01 -0700  
**To:** ccplan@arb.ca.gov

These comments are from Meredith Wingate at the Center for Resource Solutions:

We appreciate how difficult it is balancing all of the competing issues and interests and we commend the ARB for their efforts to create dialog around the allowances allocation issue. We are going to respond to all questions. Our interest in this issue stems primarily from our desire to ensure that greenhouse gas emissions are reduced as quickly as possible, and that the cap and trade design maximizes the use of renewable electricity and energy efficiency.

We feel that a well-designed cap and trade program can have a transformative impact on the entire electricity sector, moving companies away from fossil generation towards cleaner, renewable generation and greater reliance on energy efficiency. We are also concerned about the rate impacts on consumers and believe that if renewable electricity and energy efficiency are maximized, it will be the least-cost way to achieve greenhouse gas reductions.

With regard to the specific questions posed:

***On distribution of allowances .....***

We think that allowances for the electricity sector should be distributed through an auction in order to reduce wind fall benefits to generators and to minimize costs to ratepayers. To respond to SMUD's discussion about windfall profit, there has been considerable research to bolster the assertions that windfall profits do exist and some good experience in Europe demonstrating this. There are two kinds of windfalls: one kind of windfall occurs when parties are given allowances that have value and then are able to sell them. There is another kind of windfall that happens to market participants overall when the costs of all electricity is raised due to market dispatch pricing. There was a study done by Synapse for the CPUC that estimated that over \$5B/year in electricity price increases due to electricity price increases across the board- for clean and dirty generators. We feel that free allocation will add unnecessary costs to ratepayers, without any additional benefits as compared to an auction.

***On question of who allowances should be distributed to.....***

We believe that some number of allowances either should be set-aside, retired or taken out of circulation, for the voluntary renewable market. By voluntary market, I mean for those businesses and individuals who are making private investment in purchasing either renewable certificates (RECs), green electricity or installing distributed generation or energy efficiency. I will focus my comments on the voluntary renewable market, but the same issues apply to voluntary investments in energy efficiency financed outside of utility demand

response incentive programs.

The voluntary market for renewable electricity is strong and growing and can play an important role in reducing greenhouse gas emissions from the electricity sector above and beyond the capped level. A primary motivation for voluntary renewable energy purchases is to reduce the buyer's GHG footprint. This benefit—the ability to reduce electric sector emissions—would be eliminated if voluntary market sales of renewable electricity and RECs are not somehow linked to the retirement of allowances or the reduction of the cap. I would be happy to provide more statistics about the size and growing nature of the voluntary market.

Allocating allowances to renewables, in one form or another is simply recognizing the real and quantifiable emissions benefits that have *already* accrued as a result of the renewable generation. When renewable generation enters the electricity grid, the need for fossil fueled electricity generation is diminished proportionately. This reduces the need for allowances by such generators; therefore, the number of pollution allowances that are allocated to those fossil generators should be reduced. Providing those pollution allowances to renewables in one form or another is simply recognizing the real and quantifiable emissions benefits that have *already* accrued as a result of the renewable generation.

We suggest three possible policy options that enable allowances to be retired on behalf of voluntary purchasers of renewable energy.

- (1) Allocate allowances to generators based on electricity output, including renewable generators. Renewable generators that receive allowances can then retire allowances when their RECs are sold to voluntary customers. This gives renewable generators the most options, as they can choose to sell their renewable electricity into either a compliance (RPS) or voluntary market.
- (2) A second option is to retire pollution allowances on behalf of voluntary demand- This is the option used in the RGGI Model Rule. Prior to allocation of allowances, some projection of voluntary demand is made and program administrators would then retire allowances corresponding to this voluntary demand. At the end of the allowance allocation period, any difference between forecast and actual voluntary sales can be trued up. This “off-the-top” approach differs from the set-aside described below in that the allowances are not allocated to renewable generators. Instead, allowances are retired and taken out of circulation on behalf of reported voluntary demand.
- (3) A third option is a set-aside allowances for renewable energy generation. This approach is less desirable because it imposes an administrative cost, there is no certainty that the generator will be awarded allowances from the set-aside, and the set-aside pool might be insufficient, unless the regulations include a well-structured true-up mechanism. If you choose this option, then it is of paramount importance that enough allowances are set-aside to cover all voluntary demand, or some mechanism to ensure that all renewable sold into the voluntary market can maintain their carbon reduction value.

#### ***Changing the allowance distribution system....***

We feel that phasing in particular distribution methods is acceptable as long as the rules of the phase-in are known to all parties in advance, including the ability to review and change the rules at designated intervals if adverse outcomes result. As with all new policy measures that have market impacts, there will undoubtedly be unanticipated impacts that may need adjusting.

#### ***On the use of auction revenues from auctioned allowances.....***

We feel strongly that CA should use the revenues from auctioned allowances to fund energy efficiency projects and small distributed generation. The program should have performance-based goals.

We greatly appreciate the opportunity to provide comments.

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